

Regulatory updates for the month of June 2024

26 July 2024

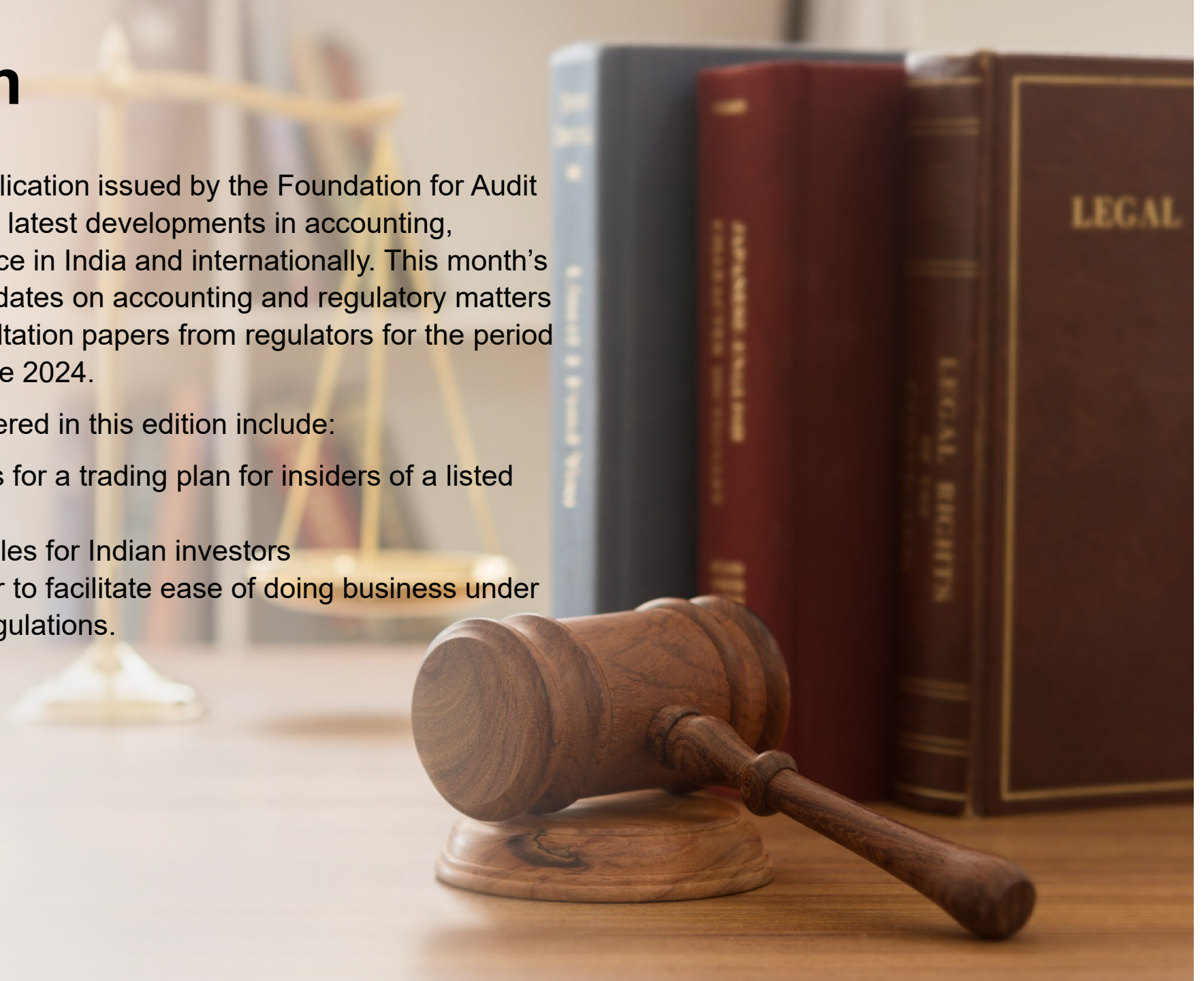
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Introduction

The regulatory updates publication issued by the Foundation for Audit Quality (FAQ) highlights the latest developments in accounting, auditing and regulatory space in India and internationally. This month's edition covers important updates on accounting and regulatory matters and other discussion/consultation papers from regulators for the period from 1 June 2024 to 30 June 2024.

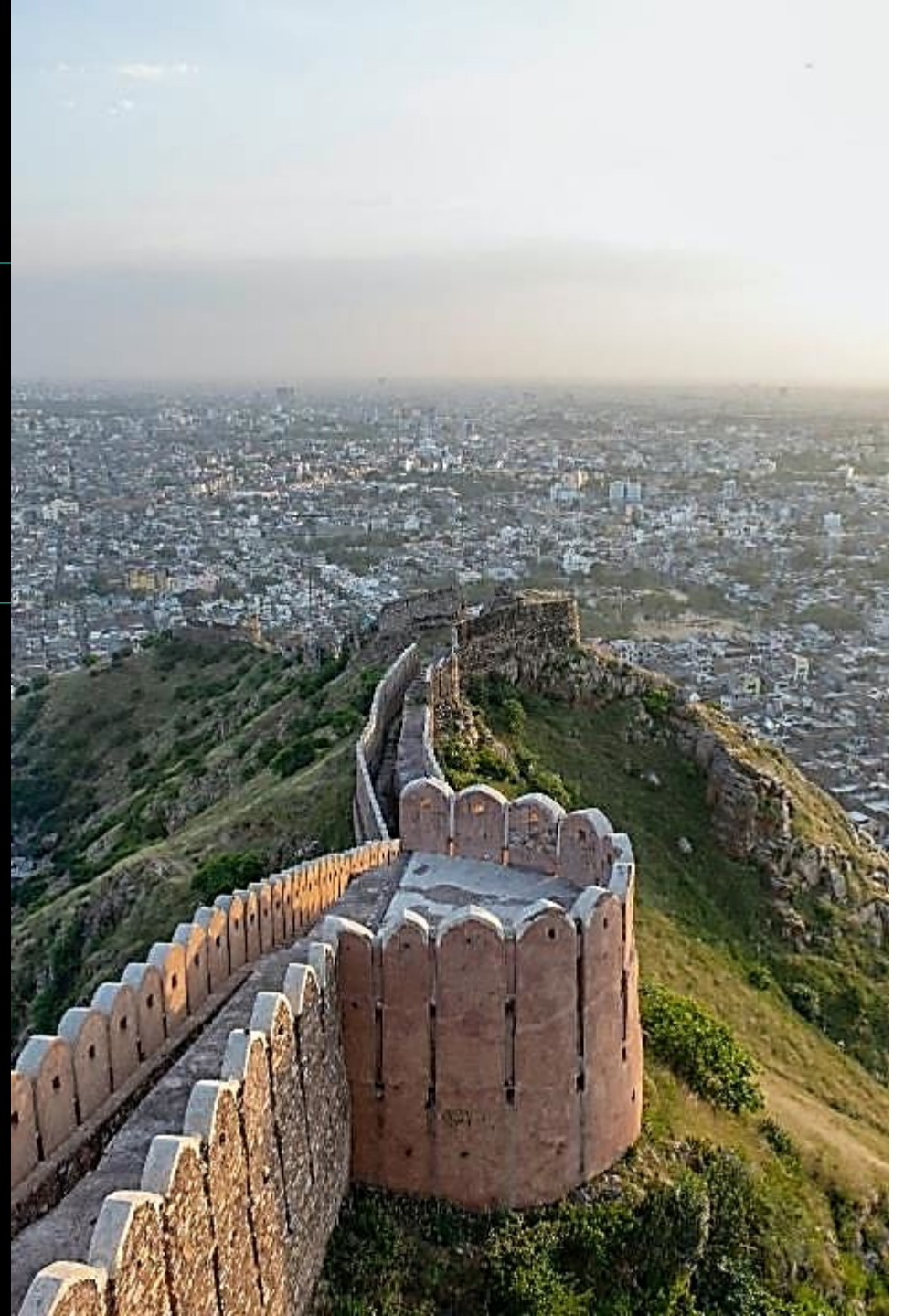
Some of the key topics covered in this edition include:

- Streamlining regulations for a trading plan for insiders of a listed entity
- Overseas investment rules for Indian investors
- SEBI consultation paper to facilitate ease of doing business under the ICDR and LODR regulations.



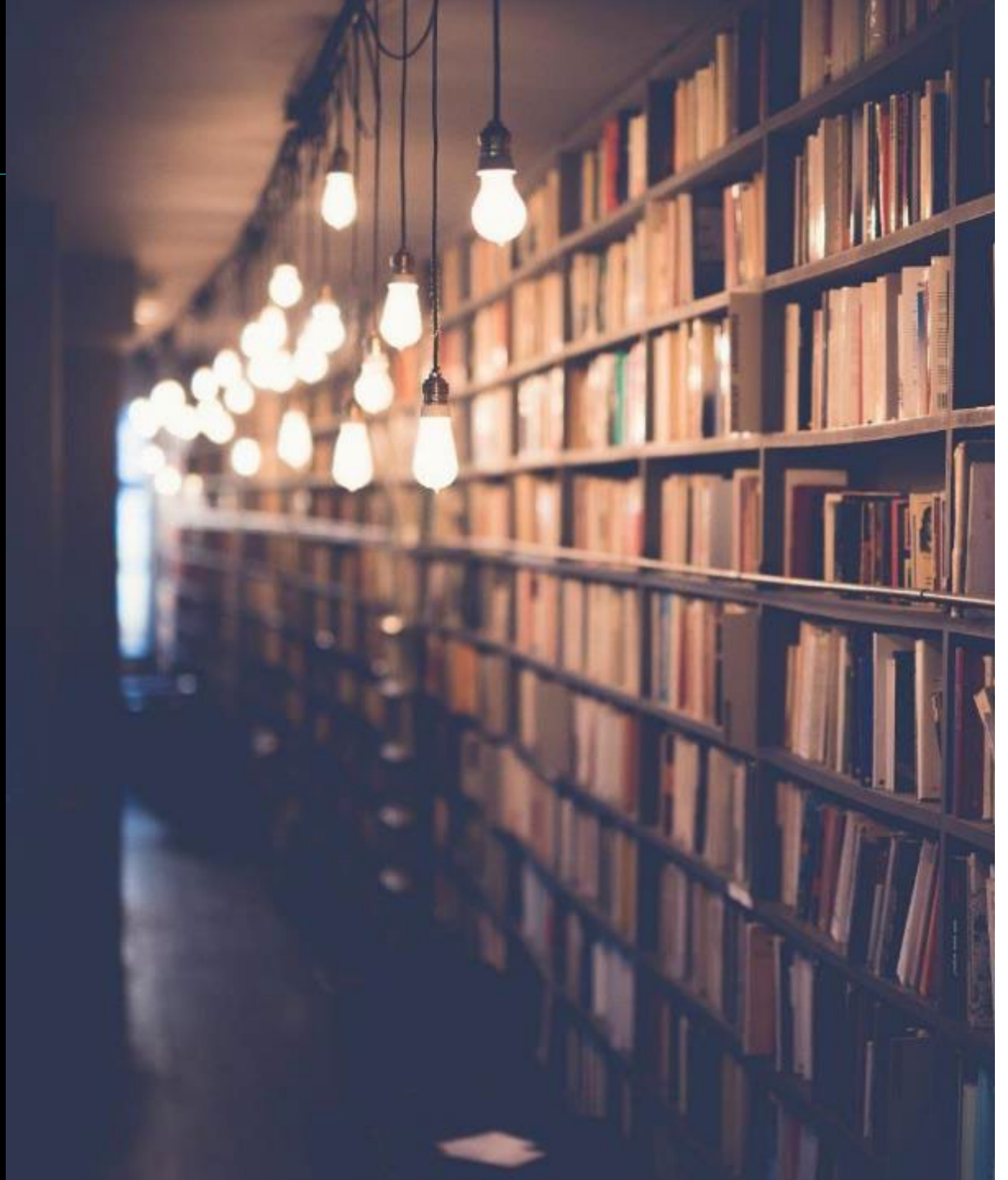
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Updates from SEBI

Streamlining trading activities for insiders of a listed entity

As per Regulation 2(1)(g) of SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT regulations), an 'insider' means any person who is a connected person or in possession of or has access to unpublished price-sensitive information (UPSI). Insider trading refers to the process of buying and selling of securities by the insiders of a listed entity who are in possession of confidential information about the entity, such as the employees, promoters, directors and executives. Regulation 5 of the PIT regulations *inter alia* permit an insider to be entitled to formulate a trading plan and present it to the compliance officer for approval and public disclosure. Trades may be executed on behalf of the insider in accordance with such trading plan.

On 25 June 2024, SEBI issued the Prohibition of Insider Trading (Second Amendment) Regulations, 2024 (the amendment) thereby amending Regulation 5 of the PIT regulations. These amendments would be applicable from 24 September 2024.

Some of the key amendments are as follows:

I. Shorter cooling-off period: Under Regulation 5(2), a cool-off period¹ of 120 days has been introduced (earlier, it was six months). The period of 120 days is also considered reasonable for unpublished price sensitive information that an insider is in possession of when formulating the trading plan, to become generally available.

II. Removal of mandatory black out period: The amendments have omitted clause (ii) of Regulation 5(2) of the PIT regulations, which specified the period during which insiders could not trade².

III. Omission of minimum period of trading plan: The PIT regulations currently require a trading plan to cover the trading for a minimum period of 12 months. However, this requirement has now been removed.

IV. Trading within limited duration: The amendments require an insider to set certain parameters such as, *inter alia*, a specific date or duration not exceeding five consecutive trading days during which their trades should be executed. This is because the outer limit on the duration of the time period would allow the insiders to split their trades across different dates, however the duration should not be so long that it is prone to misuse.

V. Deviations from trading plan: Regulation 5(4) of PIT regulations currently state that once a trading plan is approved, insiders should implement it without any deviation. The amendment has added exceptions to this regulation allowing insiders to strictly follow their trading plans, except in cases of permanent incapacity, bankruptcy or operation of law.

VI. Price limits for trade: The amendment provides an insider with an option to set an upper price limit for a buy trade and a lower price limit for a sell trade. The range for a buy trade can be up to 20 per cent higher than the closing price and for a sell trade can be up to 20 per cent lower than the closing price. This is to protect the insider from unexpected price movements.



1. This means that trading cannot commence earlier than 120 days from the public disclosure of the plan.

2. Regulation 5(2)(ii) prohibited trading by the insider between the twentieth trading day prior to the last day of any financial period for which results are required to be announced by the issuer of the securities and the second trading day after the disclosure of such financial results.

- VI. Time period for approval of trading plan:** Currently, Regulation 5 of the PIT regulations does not prescribe a minimum time period within which the trading plan needs to be approved by the compliance officer. The amendment now requires the compliance officer to approve the trading plan within two trading days of receipt of the trading plan and notify the plan to the stock exchanges on the date of approval.
- VII. Removal of contra trade restriction:** The amendment has removed the contra trade³ restrictions pursuant to a trading plan submitted by an insider.

To access the text of the notification, please click [here](#).

Updates from RBI

Overseas investment rules for Indian investors

With an aim to address the diversity in the regulatory framework that governs investment funds across various jurisdictions, on 7 June 2024, the Reserve Bank of India (RBI) amended the Foreign Exchange Management (Overseas Investment) Directions, 2022 (the directions). The amendments to the directions (amendments) provide clarity with regard to the following key points pertaining to Overseas Portfolio Investments (OPIs).

To access the text of the notification, please click [here](#).

| Existing directions | Amendment |
|-------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Form of investment | |
| Indian investors were permitted to hold an overseas investment portfolio only if the investments were made in 'units' of the funds. | The amendment now permits Indian investors to invest in units or any other instrument (by whatever name called) issued by an overseas investment fund. |
| Investment regulator | |
| The directions permitted investment in funds that were directly regulated by the financial sector regulator of the host country. | RBI has permitted Indian companies and resident individuals to invest in offshore funds that are regulated through their fund managers in their home jurisdiction. |



3. Contra trade means a buy cannot be executed if a sell trade has been executed in the last six months.

Updates from Ministry of Environment, Forest and Climate Change (MoEFCC)

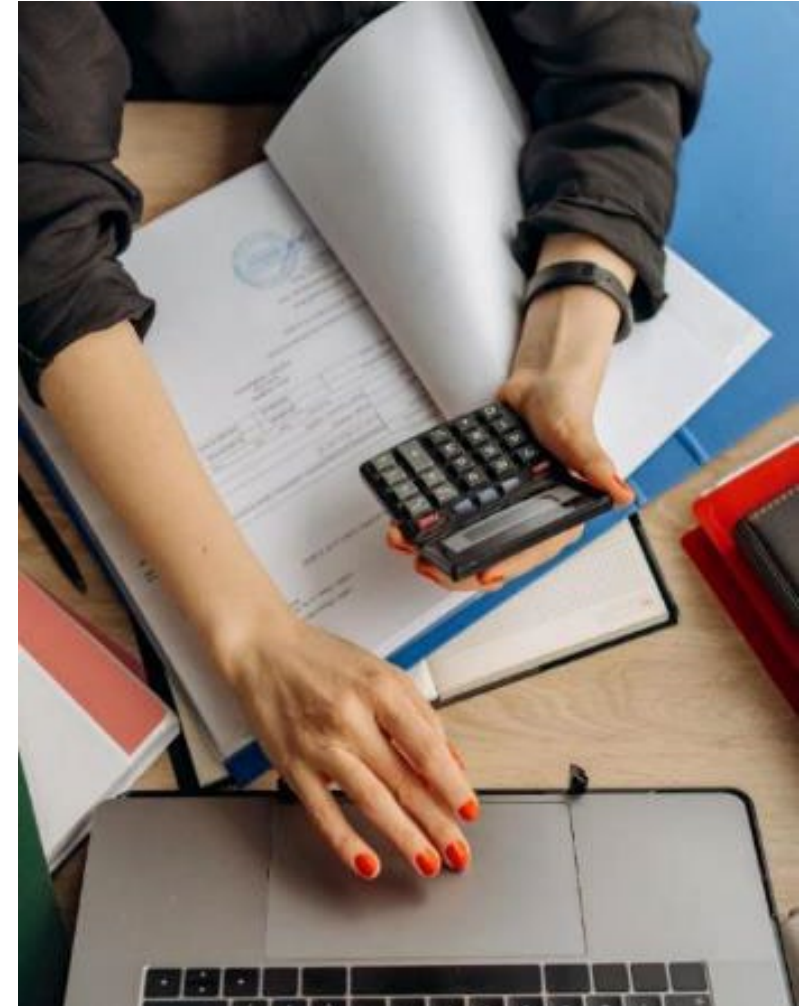
Eco-friendly practices mandated in the process of battery production

On 20 June 2024, the Ministry of Environment, Forest and Climate Change issued the Battery Waste Management (Second Amendment) Rules, 2024 (the amendment) thereby amending the Battery Waste Management Rules, 2022.

Producers of batteries are obligated under the existing regulations to use domestically recycled material in the production process. In order to achieve greater sustainability across the industry, the amendment lays down the below specified glide path for targets to be achieved for the minimum use of recycled materials in the process of battery production, across the following categories of batteries:

To access the text of the notification, please click [here](#).

| Serial number | Type of battery | Minimum use of the recycled materials out of total dry weight of a Battery (in percentage) in respect of financial year | | | |
|---------------|------------------|-------------------------------------------------------------------------------------------------------------------------|--------------|--------------|--------------------------|
| | | Year 2027-28 | Year 2028-29 | Year 2029-30 | Year 2030-31 and onwards |
| 1 | Portable | 5 | 10 | 15 | 20 |
| 2 | Electric vehicle | 5 | 10 | 15 | 20 |
| 3 | Automotive | 35 | 35 | 40 | 40 |
| 4 | Industrial | 35 | 35 | 40 | 40 |



Discussion/Consultation papers and Publications

Exposure Drafts/consultation papers – India



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The table below provides an overview of some important exposure drafts/consultation papers released by various regulators during this month:

| Regulator | Publication | Particulars | |
|-----------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| SEBI | Consultation Paper to facilitate ease of doing business under the ICDR and LODR regulations | On 26 June 2024, SEBI issued a Consultation Paper (CP) proposing amendments to certain SEBI Regulations. These proposals have been issued with an aim to facilitate ease of doing business and harmonise the provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations). The CP is divided in the following three parts: Part A : Proposals under the LODR Regulations Part B : Proposals under the ICDR Regulations Part C : Proposals for harmonizing the regulations under the LODR Regulations and ICDR Regulations. Some of the key proposals are as follows: | |
| | | Part A : Proposals under the LODR Regulations | |
| | | I. Related party transactions | Exemptions to the definition of related party transaction (Regulation 2(1)(zc)): Following items have been proposed to be exempt from the definition of RPT: <ul style="list-style-type: none">Corporate actions by the subsidiaries of the listed entity and the subsidiaries of listed entitiesSavings accounts and current account transactions in case of banking companiesRoutine transactions at arm’s length pricing may be exempted from the related party norms, provided such transactions are in the ordinary course of business. |
| | | | Approval of RPTs by the audit committee of the listed entity (Regulation 23(2)): As per existing regulations, prior approval of the audit committee of the listed entity is required for all RPTs to which the listed entity is a party. It has been proposed to exclude from the purview of RPTs the remuneration to Directors and Key Managerial Personnel (KMP), except those KMP who are part of the promoter/promoter group. Further, it is proposed to permit ratification of transactions which exceed the omnibus approval limit, within a specified timeline. |
| | | | Omnibus approval (Regulation 23(3)): RPTs of subsidiaries can now obtain omnibus approval of the audit committee of the holding listed company. |

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| SEBI | Consultation Paper to facilitate ease of doing business under the ICDR and LODR regulations | Part A : Proposals under the LODR Regulations (cont.) |
| | | II. Filings and disclosures |
| | | Single filing system (Regulation 10): A system that automatically disseminates the filing done on one stock exchange to the other stock exchanges using an API-based integration has been proposed. |
| | | Periodic filings (Regulation 10B): To minimize the number of periodic filings that are required to be done by a listed entity, it is recommended to merge the periodic filings under the LODR Regulations into two broad categories: <ul style="list-style-type: none"> Integrated Filing (Governance) – comprising of corporate governance report, statement on redressal on investor grievance. The timeline for Integrated Filing (Governance) should be within 30 days from the end of the quarter. Integrated Filing (Financial) – comprising of financial results, statement of deviation in use of proceeds, related party transactions etc. The timeline for Integrated Filing (Financial) should be within 45 days (60 days for the last quarter) from the end of the quarter. |
| | | System driven disclosures of certain filings (Regulation 31 and Para A of Part A of Schedule III of the LODR Regulations) : The process of disclosure of shareholding pattern and new or revised credit ratings should eventually be completely automated. |
| | | Website links (Regulation 46(2)): The information/data provided by listed entities is hosted on the website of stock exchanges. It has been proposed to provide curated links to the information/data on their own websites instead of duplicating the whole data again. |
| | | Newspaper advertisements (Regulation 47): The requirement of publishing detailed advertisements in newspapers for financial results is proposed to be made optional for listed entities. Further, it has been proposed to provide a small section with details of QR code and weblink of the page where detailed financial results of the listed entity have been put up. |

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| SEBI | Consultation Paper to facilitate ease of doing business under the ICDR and LODR regulations | Part A : Proposals under the LODR Regulations (cont.) |
| | | <p>III. Disclosure of material events</p> <p>Additional timeline for disclosure of events in some cases:</p> <ul style="list-style-type: none"> For the disclosure of outcome of the board meeting that concludes after close of trading hours an increased timeline of three hours instead of 30 minutes has been proposed under regulation 30(6) and Para A of Part A of Schedule III of the LODR Regulations. In case of litigations or disputes wherein claims are made against the listed entity, an increased timeline for disclosure to 72 hours has been proposed from the existing 24 hours under Para B of of Part A of Schedule III of the LODR Regulations <p>Acquisitions by listed entities (Para A of Part A of Schedule III of the LODR Regulations): It is proposed that a listed entity should disclose details of acquisition made by the listed entity, whether directly or indirectly, where such a listed entity holds shares or voting rights in a company, whether listed or unlisted, aggregating to 20 per cent (increased from 5 per cent at present) or there has been any subsequent change in holding in the company exceeding 5 per cent (increased from 2 per cent at present). However, acquisition of shares or voting rights in an unlisted company, aggregating to 5 per cent or any subsequent change in holding exceeding 2 per cent, shall be disclosed in the specified format on a quarterly basis as part of the Integrated Filing (Governance) as described in point II above.</p> <p>Disclosure of tax litigations and disputes (Para B of Part A of Schedule III of the LODR Regulations): It is proposed that a listed entity should disclose tax litigations / disputes including tax penalties based on application of criteria for materiality. It has been proposed that a listed entity should provide:</p> <ul style="list-style-type: none"> Disclosure of new tax litigations or disputes within 24 hours Quarterly updates, as part of the Integrated Filing (Governance), on existing tax litigations or dispute Tax litigations or disputes, the outcomes of which are likely to have a high correlation, should be cumulated for determining materiality. |
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| SEBI | Consultation Paper to facilitate ease of doing business under the ICDR and LODR regulations | Part A : Proposals under the LODR Regulations (cont.) |
| | | IV. Board of directors and its committees Vacancies in board committees (Regulation 17(1E)): The existing regulations provide no specific timeline to fill up vacancies in Board Committees arising as a result of vacancy in the office of a director. In order to provide adequate time to listed entities, a timeline of three months has been proposed to fill up vacancies in Board Committees, which result in non-compliance with the composition prescribed under specified regulations. |
| | | Timeline for obtaining shareholders' approval for appointment/re-appointment of director (Regulation 17(1C)): As per regulation 17(1C) of the LODR Regulations, approval of shareholders for any person appointed on the board of a listed entity should be taken within a period of 3 months or the next general meeting, whichever is earlier. It has been proposed to exclude the time taken for regulatory or statutory or government approvals for appointment or reappointment of a person as a director for determining the time limit under regulation 17(1C) of the LODR Regulations. |
| | | V. Promoters and controlling shareholders. Framework for reclassification of promoter/promoter group entities (Regulation 31A): Regulation 31A of the LODR Regulations lays down the procedure to be followed for reclassification of an entity belonging to promoter or promoter group as a public shareholder. The consultation paper has proposed changes to the framework for reclassification of promoter or promoter group entities as public under the LODR Regulations. |
| | | Obligation for disclosure of information to the listed (Regulation 5): Under the existing regulation there is no specific obligation on promoter(s), directors, KMP to make specified disclosures to the listed entity. The report proposes to cast obligation on the promoters, directors and KMPs to disclose all information that is relevant and necessary for the listed entity to ensure compliance with applicable laws. |

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| SEBI | Consultation Paper to facilitate ease of doing business under the ICDR and LODR regulations | Part A : Proposals under the LODR Regulations (cont.) |
| | | VI. Other compliance requirements Annual reports (Regulation 36(2)): The requirement of sending physical copies of annual reports to shareholders whose email ids are not available has been proposed to be removed. Such shareholders should be sent a letter with a link from which the annual report can be downloaded. Annual reports need to be submitted to the stock exchange on or before commencement of its dispatch to the shareholders. |
| | | Subsidiary related compliance requirements (Regulation 24(6)): The requirement of shareholders' approval under regulation 24(6) for sale, disposal or lease of assets of a material subsidiary has been proposed to be removed in case such a transaction takes place between two wholly owned subsidiaries of the listed entity. |
| | | Corporate governance at listed entities (Part E of Schedule II of the LODR Regulations): The board has proposed to extend the applicability of the following provisions to the top 2000 listed entities: <ul style="list-style-type: none"> • Appointment of one woman independent director on the board • Constitution of a risk management committee • Mandating more annual meetings of independent directors <p>Currently, the above mentioned provisions are applicable to the top 1,000 listed entities.</p> |
| | | Virtual and hybrid shareholder meetings (Regulation 44(4)): It is proposed to hold permanent virtual and hybrid general meetings, with the notice period for such meetings reduced from 21 days to seven days. Further it has been proposed to remove the requirement of proxy forms for general meetings. |

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| SEBI | Consultation Paper to facilitate ease of doing business under the ICDR and LODR regulations | Part B : Proposals under the ICDR Regulations |
| | | I. Eligibility conditions of an IPO (Regulation 5) The consultation paper provides flexibility under eligibility conditions for an IPO by allowing issuers with outstanding Stock appreciation rights (SARs) to file DRHP where such SARs are granted to employees only and are fully exercised for equity shares prior to the filing of the RHP. |
| | | II. Public announcement after filing of draft offer document (Regulation 26) It has been proposed to change the requirement of issuing advertisement post filing of Draft Red Herring Prospectus (DRHP) from two days to two working days. Further the 21 day comment period should be calculated from date of advertisement and not the date of filing. |
| | | III. Pre-IPO transactions (Regulation 54) It has been recommended to disclose details of pre-IPO transactions after filing of DRHP to the stock exchanges. |
| | | III. Part C : Proposals to harmonise regulations under the LODR Regulations and ICDR Regulations |
| | | I. Definition of material subsidiary thresholds The financial line items for identification of a material subsidiary under the ICDR and the LODR Regulations are different. It is proposed that the terminology for identification of a material subsidiary under both the regulations should be aligned and both regulations should refer to consolidated 'turnover' instead of 'income'. |
| | | I. Disclosure of material agreements in offer documents The requirement of disclosure of material agreements in offer documents that are entered into by shareholders, promoters, directors, etc. should be aligned under both the regulations in order to ensure parity in disclosures of material agreements. To access the text of the consultation paper please click here |

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| Regulator | Publication | Particulars |
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| SEBI | Consultation paper on disclosure of Risk Adjusted Return (RAR) by mutual funds | <p>In order to provide investors with relevant and periodic information, AMCs make various mandatory and voluntary disclosures to SEBI and the trustees. This includes scheme annual report, half yearly financial results, Scheme Information Document (SID), Key Information Memorandum (KIM), investor account statements, etc.</p> <p>The RAR represents a realistic measure of scheme's performance as it quantifies the amount of return generated by a mutual fund scheme for each unit of risk taken to achieve that return.</p> <p>However, the extant regulatory framework does not mandate disclosure of RAR along with the returns of a mutual fund scheme.</p> <p>In this regard, on 28 June 2024, SEBI issued a consultation paper proposing disclosure of RAR of the portfolio of a mutual fund scheme proposing, <i>inter alia</i>, the following:</p> <ul style="list-style-type: none">• Disclosure of Information Ration (IR) as a measure for disclosure of RAR along with the scheme's performance• Methodology for calculation of IR for each category of mutual fund. <p>To access the text of the consultation paper please click here</p> |



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